

Message Text

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ACTION EUR-12

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TAGS: EFIN, EGZN, TU
SUBJ: CITICORP PROPOSES SCHEME TO FINANCE SOME COMMERCIAL
ARREARAGES

REF: ISTANBUL 0900

1. RICHARD GEORGZ OF CITICORP GAVE US A DESCRIPTION OF A
NEW SYSTEM HIS BANK IS PROMOTING TO FINANCE SOME OF TURKEY'S
COMMERCIAL ARREARAGES. UNDER THE CATCHY TITLE OF "CONSTRUCTIVE
REMITTANCES", THE SCHEME WOULD HAVE CITICORP LOAN THE CENTRAL
BANK MONEY EARMARKED TO REPAY SPECIFIED COMMERCIAL DEBTS WITH
A GUARANTEE TO CITICORP BY THE SUPPLIER PAID WITH THE FUNDS.
INTEREST WOULD ALSO BE GUARANTEED BY THE SUPPLIER IN CASE OF
DEFAULT, BUT ONLY TO AMOUNT COMPANY WOULD NORMALLY HAVE TO
PAY FOR COMMERCIAL CREDIT; GEORGE SAID PRIME RATE WOULD BE
AROUND 3/4 PERCENT ABOVE LIBOR. ATTRACTION TO CITIBANK IS
OBVIOUS; RISK IS NOT WITH TURKEY BUT WITH SUPPLIER AND ONLY
CREDIT WORTHY SUPPLIER'S WOULD BE SERVICED. ATTRACTION TO
SUPPLIER IS ALSO CLEAR-HE WOULD GET HIS MONEY AND IN CASE
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OF DEFAULT, THERE WOULD BE A CLEAR CENTRAL BANK OBLIGATION
RATHER THAN THE MURKIER POSITION OF A COMMERCIAL ARREARAGE
WITH RESPONSIBILITY OF THE DEBT ON THE PURCHASER AND
CENTRAL BANK RESPONSIBLE FOR FOREIGN EXCHANGE FACILITY.
BENEFIT TO THE THIRD PARTY, CENTRAL BANK OF TURKEY, LESS
CLEAR. GEORGE SAYS SYSTEM WOULD HELP RESTORE COMMERCIAL
CREDIT WORTHINESS AND COULD BE EXTENDED TO FINANCE SOME

FUTURE IMPORTS. HE SAYS FINANCE MINISTER MUEZZINOGLU RECENTLY RECOMMENDED THE SYSTEM TO A GROUP OF TIRE PRODUCERS. THIS SCHEME EXPLAINS SOME OF OPTIMISM IN GEORGE'S ESTIMATES (REFTEL) OF \$2.5 BILLION IN ADDITIONAL SUPPLIER CREDITS FOR 1978.

2. CITICORP WOULD BE READY TO PUT ABOUT \$200 MILLION INTO THIS SYSTEM SERVICING ITS CUSTOMERS, AMONG WHOM HE LISTED MOBIL, SHELL, BP, UNIROYAL AND INTERNATIONAL HARVESTER. MULTI-NATIONALS WITH SUBSIDIARIES IN TURKEY ARE PRIME CANDIDATES.

3. TERMS FOR THE LOANS TO THE CENTRAL BANK WOULD BE FIVE YEARS WITH TWO YEARS' GRACE PERIOD. GEORGE DID NOT GIVE THE INTEREST RATE.

4. COMMENT: SOME SUCH SCHEME AS DESCRIBED BY GEORGE WILL BE NECESSARY, IN OUR VIEW, TO DEAL WITH THE PROBLEM OF COMMERCIAL ARREARAGES AND TO FINANCE SOME IMPORTS UNTIL TURKEY IS ABLE TO BRING HER FOREIGN ACCOUNTS CLOSER TO BALANCE. A MAIN ATTRACTION IS THE TWO-YEAR GRACE PERIOD ON PRINCIPAL REPAYMENTS, WHICH WILL EASE THE PRESSURE IN THE SHORT TERM WHERE TOO MUCH OF TURKEY'S DEBT IS CONCENTRATED.

HOUGHTON

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